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FISCAL IMPACT STATEMENT

LS 6911

BILL NUMBER: SB 379

NOTE PREPARED: Jan 5, 2005

BILL AMENDED:

SUBJECT: Delivery sales of tobacco products.

FIRST AUTHOR: Sen. Weatherwax

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill prohibits the shipping of tobacco products to an Indiana resident who is not a tobacco products distributor. It repeals statutes governing delivery sales of cigarettes.

Effective Date: July 1, 2005.

Explanation of State Expenditures: This bill prohibits the shipping of tobacco products, including cigarettes, to an Indiana resident who is not a licensed cigarette distributor or an other tobacco products (OTP's) distributor.

The provisions of this bill may assist the DOR in better regulating Cigarette and Sales tax remittances by internet buyers and sellers. This bill may also assist the Alcohol and Tobacco Commission (ATC) in better regulating illegal tobacco sales to minors by internet merchants. The overall administrative cost impact to the DOR and ATC is indeterminable.

DOR estimates that there are approximately 300 OTP's licensed distributors and approximately 150 distributors licensed for cigarettes. It is estimated that a large percentage of the cigarette distributor licensee's also hold OTP's licenses. This would mean that the total number of licensed distributors is estimated to be between 300 and 350.

To obtain a license as an OTP distributor a person must pay DOR a registration fee of \$25 per year, and file a surety bond or letter of credit with the DOR for \$1,000.

To obtain a license as a cigarette distributor a person must pay DOR a registration fee of \$500 per year, and file a surety bond or letter of credit with the DOR for \$1,000.

Explanation of State Revenues: This bill will have an indeterminable impact on Cigarette and Sales Tax revenue. Depending upon the ability of the DOR to enforce the provisions in this bill, there could be an increase in Cigarette and Sales Tax revenue. By requiring Indiana residents to obtain a distributor's license before legally receiving tobacco shipments may allow better enforcement. Conversely, by only allowing internet merchants to ship to distributors may also help with enforcement issues. It is indeterminable what effect this bill will have on deterring tax evasion through internet sales and purchases.

Background: It is estimated that in 2003, approximately 414 M packs of tax-free cigarettes were sold over the internet nation wide. If estimated at the same percentage as Indiana's population versus the U.S. population, the approximate number of tax-free packs of cigarettes sold to Indiana residents over the internet would be around 8.8 M.

Up from only a few in the 1990's, it is estimated that more than 400 web sites currently sell tobacco products. Internet tobacco sales were estimated to make up 2 percent of all tobacco sales in 2003. In 2005 internet tobacco sales are being estimated as making up 14 percent of the total U.S. tobacco market.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Alcohol and Tobacco Commission

Local Agencies Affected:

Information Sources: Terry Collins, DOR, 317-233-0388; Don Attebury, DOR, 317-232-2177; *Convenience Store* (magazine); <http://tobaccofreekids.org/reports/internet/>.

Fiscal Analyst: Adam Brown, 317-232-9854.